Carlton P. Wilson

Stock Market Outlook Written by Chairman Carlton P. Wilson in 1973

"Getting to Know You"

Excerpt on Baird's philosophy from an in-house brochure, c. 1964

Baird is not merely an agent for the buying and selling of shares of stock. It is not merely a technician in the underwriting of bond and stock issues. Baird does perform in these roles, but it considers its basic purpose to be that of a middleman in the tremendous flow of energy (otherwise known as capital) generated by a system of private enterprise. As a middleman, it considers that it must identify itself with the interests both of the users of capital (corporations and entrepreneurs) and the suppliers of capital (individual investors and institutions).

It feels also that, as a middleman, it must exercise that objective judgment necessary to insure that each "wedding" of supplier and user is also a wedding of mutual interest and purpose. This means that Baird might underwrite the securities of a new venture with reasonable prospects of success on the one hand, and on the other, acquaint a customer capable of assuming risk with the opportunities in this new issue. In connection with another underwriting – perhaps of new stock issued by an established utility needing capital for plant expansion – Baird might advise an elderly widow that these securities would be appropriate in her portfolio, and serve her interest with substantially improved income. A Baird representative will not sanction a transaction which is clearly not in a customer's interest.

outlook

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panic proportions in December The market dropped almost 200 points in six weeks as the Arab oil shut-off threatened world-wide recession if not depression.

As this is being written it is still not clear that the decline is ended. None of the negative factors that have been affecting the stock market have changed significantly. Two great unknowns exist — the ultimate resolution of the oil shortage and the durability of the Nixon administration itself. While answers may be found sometime during the first months of 1974, the impact of the answers will remain clouded for some time.

With the Dow Jones Industrial
times estimated 1973 earnings in e
tion's investor confidence has retur
occupied in the early 1950's wher
proximately that multiple. As a con
that we will be entering 1974 with
already out of that popular index.
market will necessarily move high
course not. If 1973 didn't teach us
have taught us that almost anythin
But we do feel confident that many
at genuine bargain basement prices
for long term investors.

The actions of the stock market
the economy or what is expected of
just ended is an excellent example.
the year, with an economy that w
stronger, the market reacted negati
and, dominated by extra-economic
performance.

In the second half of the year, w
by many, the market was moving ah

into the Arab sponsored petroleum shortage and its broader implications.

It is hard, as a result, to base a market forecast on what our research staff expects of the economy. A slowdown, for example, might be beneficial for the U.S. It could ease inflation and bring a decline in interest rates. That would certainly be positive. The problem, of course, is that an overdue and perfectly normal cyclical recession, when complicated by a politically induced worldwide petroleum shortage, could get out of hand. Badly out of hand. That, of course, is what is disturbing the market. It is a situation completely outside of our experience. There is a very good chance, however, that much of this is already reflected by the equities markets both here and abroad.

From a purely economic standpoint, our research people had been looking for a 1974 recession even before oil valves were turned off. Monetary growth has been at zero, interest rates remained at a violently repressive level and the federal budget had moved into a surplus position. This combined position of monetary and fiscal policy is more restrictive than at any other time since World War II.

Rising long term interest rates have not helped housing. our nation's largest fabricating industry, and consumer confidence is lower than it has been in 25 years. Only the fact that business has retained a strong willingness to make capital commitments has kept the economy as strong as it has been. In our opinion, a recession has probably started already. It was inevitable and perhaps even desirable. We do not believe that federal economic managers have now or ever had the capacity to manage our economy without fluctuation.

As most investors and consumers already know, inflation has taken on a new and distinguishing characteristic — lack of supply Demand has, in recent decades, been the prime ingredient in economic equations. Now, it may well be supply Last summer we had our first real brush with demand-pull inflation when food prices got very nearly out of hand. We expect demand-pull inflation to continue to be a part of the economic picture.

The other primary characteristic of 1974 — the one we are trusting to shorten the length of the recession — is the expanding capital goods boom. McGraw-Hill's survey of capital spending for 1974 predicts a 14% rise for manufacturing. This is a fortunate development. Particularly with housing, consumer durables and auto sales tailing off.

The latest developments in Arab world diplomacy will affect our economy in another way in the months and years to come. We cannot ignore the degree to which we have become dependent on outside sources for something as essential as oil. Just as we launched a major and successful

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nevertheless, does offer a positive side to the solution of the energy crisis.

It is certainly legitimate to question whether or not there is a power source not dependent upon petro-chemicals that will move four-wheel vehicles through city streets and on highways. One also can ask if there isn't a better method to transport people around our urban areas than the high percentage of autos that carry only one passenger

Housing, an industry closely linked to savings and loans, may feel the forces of the energy deficiency, yet in a way that can benefit our large cities and their population. High prices and shortages of gasoline for autos may light the fuse that will set off a large scale return to living in or near downtown. We are fortunate in Milwaukee to have already in the blueprint stage the proposal of the Milwaukee Development Group to erect several thousand living units in areas downtown to the west and the east of the Milwaukee River A back-to-the-downtown movement makes energy sense it also makes economic sense and good living sense. The plans for the development of downtown Milwaukee, incidently, also envision a new shopping center with attractions found nowhere else in metropolitan Milwaukee.

The time has come for, and I'm confident that we will find, hard-headed searches leading to practical utilization of sources of power which so far have been only tantalizing and exciting promises; forces such as solar energy, the tides, heat stored in underground reservoirs, breeder reactions, fuel cells. Even when the technical and physical means are found to make available new energies, there may be a need for economic incentives to harness them for the consumer

The time also may have come for an international approach to solving the energy crisis — for the United States to team with Japan and countries of Western Europe, maybe other major powers, to tackle the development of the new sources. Even while crash programs to increase domestic production are becoming successful, we still will be faced for some time with the curtailing of consumption of energy

These factors intertwine in the background as the savings and loan business and other financial organizations look to the new year We already have witnessed reaction in the stock market to the energy situation. We must, though, be somewhat cautious in laying the blame for all of the late 1973 decline in stock prices on this one doorstep. It is probable that there was also some sifting out of overvalued securities already in progress. We may for some time see lower price-earnings ratios than we have been accustomed to.

Through the days ahead as we begin to see sunshine through the clouds of the energy crisis, we can be pretty sure about some of the basic instincts of people. We will find that folks want to have savings plans that will assure funds for the needs and wants of their families and for income in retirement. And we can expect that they will continue to look to savings and loan associations as the largest depository for the money they set aside.

Meanwhile, savings and loans will be challenged to be innovative and to put to the best use the tools we have to attract savings inflow The accumulation of capital is the lifestream of our business. We will thrive and grow through the energy crisis or other periods of stress as we successfully offer new services and present the traditional ones in ways that attract savers and their money ■

STOCK MARKET
by Carlton P Wilson
Chairman of the Board,
Robert W Baird & Co.

It is impossible to comment on what may be ahead for the stock market in 1974 without remarking on the truly extraordinary and unforeseen developments that dominated 1973's market performance.

The market opened the year on strength and, continuing a rally that began in December, 1972, reached a new high on the Dow Jones Industrial Average when, after breaking the 1,000 barrier for the first time, it peaked at 1052 on January 5th. At that time, very few guessed what was ahead for the remainder of 1973.

1973 was an unhappy year for investors. Despite a strong capital goods economy and a trillion dollar gross national product, the market skidded for most of the year There was a combination of almost historic negative events — absolutely intransigent inflation, the incredible Watergate debacle, the resignation, quite separate, of the vice president, and finally, renewed war in the Middle East that resulted in the deployment, for the first time, of petroleum as a major international weapon. These things were too much for the equities markets.

With investor confidence slowly draining away as each event broke into the headlines, the decline reached almost

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